

Dynamic Trader Daily Report

Comprehensive Analysis and Education For the Serious Trader and Investor

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The analysis and trading strategies described in this report are for educational purposes only. The commentary in this report may or may not relate to a specific trade recommendation made in the Dynamic Trader Report. The weekday issues of the Dynamic Trader Report are prepared by Stephen Griffiths and are primarily for trading education purposes with alerts for potential trade set-ups for markets described in the Saturday issue prepared by Robert Miner.

Trend Reversal Entry Strategies – Part 3

This week's series of tutorials is about three trend-reversal trade-entry strategies using daily data and one strategy that uses intraday data.

- Reversal Day
- Signal Day
- Snap-back Reversal Day
- Break of the last minor swing high or low

Today I would like to move onto the last two Daily reversal patterns – the Signal Day and the Snap-back Reversal Day.

The Signal Day

From Chapter 6 of Robert Miner's Book, Dynamic Trading we have:

Signal Day entry signal for a top (reverse for a bottom)

A *signal day* top is made when a market opens above the prior day's close, makes a new daily high and closes below the current day's open. The open must be in the top 1/3 of the daily range and the close must be in the bottom 1/3 to qualify as a valid signal day. Unlike a reversal day, the close does not have to be below the prior day's close, only below the current day's open.

There is one variation on the *signal day*; this is the *gap signal day*. This is a signal day where the entire range of the signal day is above the prior day's range, leaving a gap at the end of the day. The gap signal day is a very powerful daily reversal signal.

Always keep in mind that trend-reversal signals are only valid if they are made at projected time, price and pattern targets for a trend reversal. They are not stand along signals.

Let's have a look at a recent example of a gap signal day in (Feb) Gold:

Gap Signal Day – Trade entry and initial protective stop position



The gap signal day was made on a Wave-5 at W.5 time and price targets. The sell signal is on the close and the initial protective buy-stop is one tick above the signal day high.

Like other daily reversal signals, a valid signal is dependent on the close. However, before the trading day is finished, we know what closing price is necessary to complete the daily reversal signal and we can usually enter a stop-close-only order with the broker.

You do not have to be a screen watcher to execute trades with these daily reversal signals.

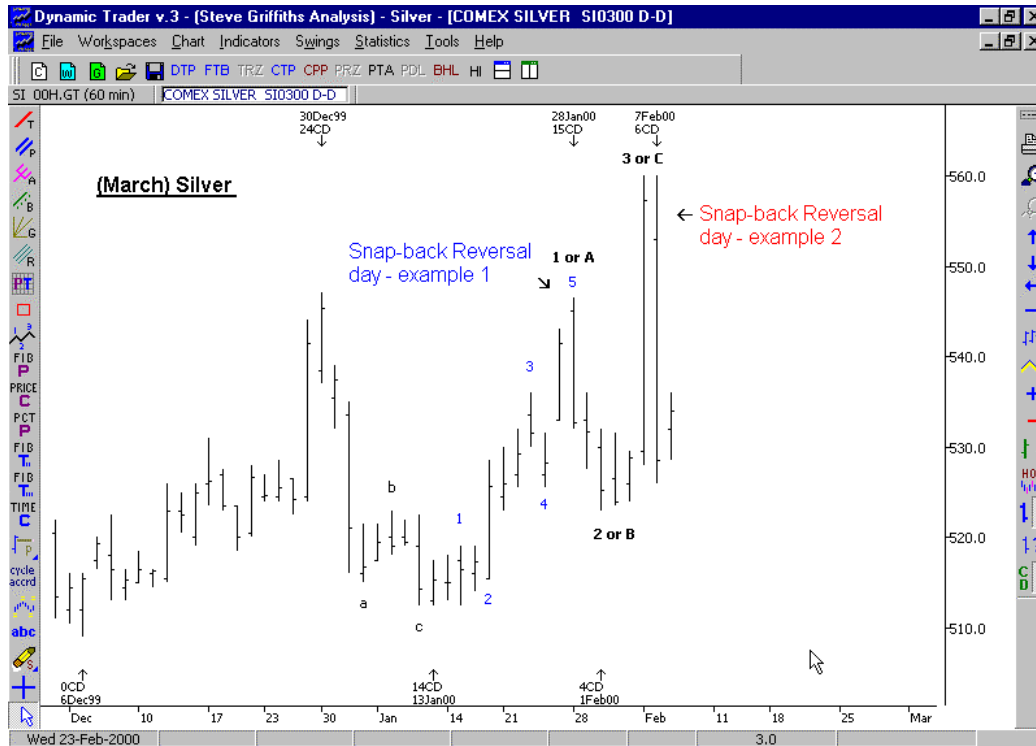
The Snap-back Reversal Day

This is a two-day signal.

Day one. The market makes a new high with an open in the bottom 1/3 of the daily range and the high in the top 1/3 of the daily range. It appears to be a very bullish day.

Day Two. The open is in the top 1/3 of the daily range and the close is in the bottom 1/3 of the daily range. The second day does not have to reach new highs above day one. We do not know what is the daily range or the position of the close relative to the daily range until near the close of the day. The wider the range of each day, the stronger the signal.

Let's take a look at a recent example in (March) Silver, including the volatile reversal over last Friday – Monday.



The trade entry trigger for a top is to sell (buy for a bottom) on the close of the second day of the snap-back reversal day set-up *if* the initial criteria for the snap-back reversal day have been met.

On Jan. 28, silver completed a snap-back-reversal. The second day of this set-up also was an outside-reversal-day. The DT Report labelled this high as a Wave-1 or A. The snap-back-reversal set-up may have been used to either exit a long position or enter for the Wave-2 or B correction if there appeared to be enough profit potential on the correction.

Always keep in mind that the daily reversal signals can be used to exit open trades as well as enter new positions, depending on the trade and market position.

S&P Snap-Back-Reversal At Jan. 31 Low



The initial protective sell-stop then goes at the place where our analysis would be proven incorrect. This is just below the low of the lower of the two days.

The initial capital exposure required on a daily reversal signal may be greater than what is acceptable for your trading plan. In the S&P example, an entry at 1401.0 and stop at 1357.00 should be more risk that a trader is willing to accept – I don't care how good the set-up looks! When this is the case, go to the shorter-term time frame with intraday data and use short-term trend-reversal and trend-continuation strategies to enter in the direction of the new trend. You will still be looking to enter near the very early stages of the new trend even if not on the exact day of the trend reversal.

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Tomorrow I will look at the *reversal confirmation day*. Although this is technically not a trend-reversal signal (because it is usually made within 1-3 days of the actual pivot), it is the trend-reversal signal we usually use in our specific trade recommendations in the DT Report.

Today's Trading Lessons

1. Daily reversal trade entry signals are only acted upon is the market has reached the time, price and pattern position for a potential trend reversal.
2. A *Signal Day* top is made when a market opens above the prior day's close, makes a new daily high and closes below the current day's open. The open must be in the top 1/3 of the daily range and the close must be in the bottom 1/3 to qualify as a valid signal day.
3. A *Snap-Back Reversal Day* is a two-day signal, where:
 - Day One. The market makes a new high with an open in the bottom 1/3 of the daily range and the high in the top 1/3 of the daily range. It appears to be a very bullish day.
 - Day Two. The open is in the top 1/3 of the daily range and the close is in the bottom 1/3 of the daily range. The second day does not have to reach new highs above day one.
4. If the initial capital exposure of a daily reversal signal is more than is acceptable according to your trading plan, go to the shorter-time frame for a trend reversal or trend continuation entry strategy.

Continued on next page.

Potential Trade Set-ups and Trade Follow-ups

(June) Live Cattle

Short and Intermediate Term Unit (L-1/31, 69.60)

Maintain the protective Sell-stop on the intermediate-term unit at 69.35, just below the last minor swing low.

(March) Bonds

Today we were stopped out of both short units at the 94-24 protective buy-stop..

Bonds made a very wide-range outside-reversal day which was also a snap-back reversal day today after tagging the 78.6% retracement. Bonds are not in a position to make a specific trade recommendation but traders should be oriented to making short trades on corrections and trend-continuation signals.

(March) Wheat

Short and Intermediate Term Unit (L-2/7, 259)

1. Raise the protective Sell-stop on the short-term unit to 256.2, one tick below the last minor swing low.
2. Raise the protective Sell-stop on the intermediate-term unit to 252 just below the 78.6% retracement.

(March) S&P The S&P reversed sharply just short of the Price and Time resistance outlined in yesterday's report. Although not a specific trading recommendation, traders may look to position Short on a correction into at least a 50% Price retracement of the decline off the Feb 8 high with a Stop just above the 78.6% Price retracement.

Hence we are looking to position Short on a minor corrective rally which is the same entry strategy as outlined in Saturday's report.

(March) British Pound Although not a specific trading recommendation, the pound has retraced 38.2% in Price and tomorrow is a 38.2% retracement in Time off the Jan 20 high. Today is also a Gann pullback, hence traders may consider a Short trade below today's low of 160.78 as a *trend continuation* set-up. See Chart on the next page.

Good Trading,

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British Pound Chart

